

Message Text

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C O N F I D E N T I A L NEW DELHI 7992

EXDIS

FOR SISCO FROM MOYNIHAN

E.O. 11652: GDS

TAGS: PFOR, EAID, IN, US

SUBJ: PAST AID TO INDIA AND FUTURE NEEDS: DISCUSSION WITH

P.N. DHAR, SECRETARY TO THE PRIME MINISTER

1. ON JULY 6 I PRESENTED THE MEMORANDUM THAT FOLLOWS TO P.N. DHAR, SECRETARY TO THE PRIME MINISTER. THIS WAS DONE IN THE COURSE OF GENERAL TOUR D'HORIZON, AND WITH NO HEAT. DHAR EXPLAINED THAT THE PRIME MINISTER WAS TALKING ABOUT THE BOKHARO STEEL MILL WHICH GALBRAITH HAS SUPPORTED, BUT WASHINGTON DECLINED. THIS WAS AS GOOD AN EXPLANATION AS HE COULD MUSTER ON THE SPOT, AND ALMOST CERTAINLY TRUE IN THE SENSE THAT THE PRIME MINISTER REMEMBERS THAT EVENT, AND FORGETS ALL THE OTHERS. HE SAID HE WOULD DRAW HER ATTENTION TO THE QUITE EXTRAORDINARY RATION NINE TO ONE OF U.S. AID TO THE PUBLIC AS AGAINST PRIVATE SECTOR, AND TO THE ENORMOUS ROLE AMERICAN AID HAS PLAYED IN THE FORMATION OF PUBLIC SECTOR CAPITAL IN INDIA. IF YOU HAVE THE OPPORTUNITY, YOU MIGHT WISH TO RAISE THIS WITH KAUL WHEN YOU NEXT SEE HIM. I HAVE BEGUN A SYSTEMATIC PRACTICE OF MAKING THEM FACE UP TO THE IMPLICATIONS OF WHAT THEY SAY. MY STATEMENT ON AID WAS THAT THE PRIME MINISTER'S COMMENT HAD CAUSED PAINED DISBELIEF IN WASHINGTON AMONG MEN FOR WHOM I HAVE A DEEP REGARD WHO HAD GIVEN THE BEST YEARS OF THEIR LIVES TO HELPING BUILD THE INDIAN PUBLIC SECTOR AND WHO OUT OF THEIR OWN SERIOUSNESS ON THIS SUBJECT HAD DECLINED TO SUPPORT SOME GOD DAMN STALINIST STEEL MILL THAT TEN YEARS LATER IS ROARING
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AWAY AT NINETEEN PERCENT OF CAPACITY.

2. JUST BEFORE I LEFT FOR WASHINGTON D.F. DHAR, THE PLANNING MINISTER HAD TOLD ME THAT INDIA WOULD REACH ZERO NET AID AT

THE END OF THE FOURTH FIVE YEAR PLAN AND THAT ADDITIONAL FOREIGN RESOURCES WERE NOT NEEDED. THIS WAS NOT A SOLEMN ASSERTION BY HIM, BUT HE DID SAY IT IN THE COURSE OF JOUSTING WITH ME. I TOLD THIS TO KAUL THE MOMENT I MET HIM IN LAKE PLACID, SAYING OF COURSE I HAD REPORTED THIS TO MY GOVERNMENT. KAUL ASSURED ME DHAR KNEW NOTHING OF SUCH MATTERS. I SAID WAS THAT THE CRITERION BY WHICH INDIA CHOSE PLANNING MINISTERS. ETC. LATER, IN WASHINGTON, HE REPORTED TO ME THAT HE HAD CHECKED WITH DELHI AND THAT DHAR HAD BEEN JESTING. ETC. EVEN SO, ON MEETING P.N. DHAR THIS TIME AND REPEATING THE TALE, HE ASKED ME TO TELL IT TO THE PRIME MINISTER WHEN I NEXT SEE HER. THIS LAST IS OBVIOUSLY TO BE PROTECTED, AS OUR CABLES PUT IT.

3. WARM REGARDS.

4. FOLLOWING IS TEXT OF THE MEMORANDUM I GAVE P.N. DHAR, (THE TABLES TO WHICH IT REFERS ARE BEING POUCHED TO NEA/INS):

ON JUNE 24, CANADIAN TELEVISION BROADCAST A QUESTION-AND-ANSWER PROGRAM WHICH PRIME MINISTER GANDHI HAD TAPED EARLIER THAT WEEK. ONE OF THE SUBJECTS THE PRIME MINISTER DISCUSSED WAS AMERICAN AID TO INDIA. ACCORDING TO SEVERAL PRESS ACCOUNTS, THE PRIME MINISTER SAID OF THE UNITED STATES,

"THEY WERE MORE WILLING TO HELP WHAT WE CALL THE PRIVATE SECTOR, THE PRIVATE CONCERNS, WHEREAS FROM THE EAST EUROPEAN COUNTRIES WE GOT HELP FOR THE STATE SECTOR, WHICH WE THINK IS MORE IMPORTANT TO BECOME SELF-RELIANT".

OUR IMPRESSION IS THAT THE HISTORY OF AMERICAN AID TO INDIA SUGGESTED A SOMEWHAT DIFFERENT CONSLUSION. I ATTACH SUMMARIES OF AMERICAN AID DISTINGUISHING BETWEEN THE PUBLIC AND PRIVATE SECTORS.

I SHOULD LIKE TO MAKE FOUR POINTS:
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1. AS SHOWN ON TABLE 1, DIRECT U.S. ASSISTANCE TO INDIA OVER THE PAST 21 YEARS HAS TOTALLED \$10 BILLION (ABOUT RS 7,500 CRORES AT CURRENT RATES). NINETY PERCENT OF THAT AID HAS GONE TO THE INDIAN PUBLIC SECTOR, TEN PERCENT TO THE PRIVATE.

2. AS SHOWN ON TABLE 1, DOLLAR DEVELOPMENT LOANS HAVE TOTALLED \$2.7 BILLION, OF WHICH MORE THAN TWO THIRDS (\$1.8 BILLION) HAS GONE TO THE INDIAN PUBLIC SECTOR.

3. AS SHOWN ON TABLE 2, RUPEE AID (LOANS AND GRANTS) FOLLOWING FROM THE SALE OF COMMODITIES UNDER PL 480 HAS GONE TO THE PUBLIC AND PRIVATE SECTORS IN A RATIO OF ALMOST 20 TO 1. THE ONLY SIGNIFICANT USE OF RUPEE PROCEEDS FOR THE PRIVATE SECTOR

WAS FOR COOLEY LOANS, AMOUNTING TO RS 1.25 BILLION OUT OF
PROCEEDS TOTALLING RS 29.3 BILLION.

4. AS SHOWN ON TABLE 3, THE UNITED STATES FINANCED THE
EQUIVALENT OF 21 PERCENT OF TOTAL INDIAN PUBLIC SECTOR CAPITAL
FORMATION
DURING THE 1960'S, PREDOMINATELY FROM PL 480 PROCEEDS AND
OTHER FORMS OF AID. DURING THIS PERIOD THE US PROVIDED MORE
THAN HALF OF ALL OVERSEAS CAPITAL GOING TO BOTH THE PUBLIC AND
PRIVATE SECTORS.
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